STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES HOUSE OF REPRESENTATIVES
ON

Cl H.R. 5846 to amend the Export-Import Bank Act of 1945, as amended, to allow for greater expansion of export trade of the United States, to exclude Bank receipts and disbursements from the budget of the United States, and for other purposes. H 60

May 20, 1971

Mr. Chairman and Members of the Subcommittee:

We appear at your request to present our views and answer your questions on the provisions of H.R. 5846, which would exclude the receipts and disbursements of the Export-Import Bank from the totals 170 of the budget of the United States Government and exempt them from any annual expenditure and net lending limitations imposed on the budget. D.1204 Our views were expressed in September 1970 when we appeared before the Senate Subcommittee on International Finance, Committee on Banking and Currency, at its request on a similar bill, S. 4268, which failed of enactment and also in March 1971 before the Senate Committee on Banking, Housing and Urban Affairs on S. 19 and S. 581. Our position on H.R. 5846 is the same as the one taken in our previous testimony.

As you know, the General Accounting Office has over many years favored the principle of full disclosure to the Congress and review by the Congress of the budgetary programs submitted by the executive branch. In our view excluding the Export-Import Bank's receipts and disbursements from the budget totals would establish a highly undesirable precedent since the exclusion could with equal logic and justification be applied to other loan programs. In my opinion, it is impossible to differentiate between this program and other loan programs in the budget. It would open the

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door to excluding other programs, a weakening of the budgetary process, and reduce the ability of the Congress to establish budgetary priorities. The objectives of the legislation could be accomplished with equal effectiveness by an amendment to the Expenditure Control and Limitation Act or by administrative action by the Office of Management and Budget to increase the limit on expenditures for the Bank.

Our position is consistent with the conclusion of the President's Commission on Budget Concepts of October 1967, that all loan programs operated by Federal entities in which the capital stock is owned by the Government should be included in the budget on a net lending basis. That is to say, the budget totals include the difference between loan outlays or disbursements on one side, and loan reimbursements or repayments on the other side. This budget policy as it affects the Export-Import Bank has been in existence for many years. It was in effect long before the report on the President's Commission on Budget Concepts and the adoption of the unified budget.

The President's Commission on Budget Concepts was a bipartisan group. It was chaired by Mr. David Kennedy, who was later appointed Secretary of the Treasury, by President Nixon. The Commission included the Chairman and the ranking minority members of the House and Senate Appropriations Committee. I was a member of the Commission. Mr. Robert Mayo, later Director of the Bureau of the Budget, was its staff director. I attach a list of the members of the Commission

The Commission's report was unanimous and its recommendations were adopted by President Johnson and later by President Nixon.

The Budget Commission considered an alternative of excluding all loans from the budget, and arguments were made to the Commission supporting this course of action. The arguments pro and con were set forth in an excellent staff paper presented to the Commission by Mr. Mayo, and I would like to read the pertinent excerpt:

"<u>The case for excluding loans from the budget</u>

"Several reasons have been given at one time or another for treating loans at the very least as something other than ordinary budget expenditures or for excluding them altogether from the calculation of budget surplus or deficit. The reason for excluding loans in the NIA budget--that there are not income items in ordinary accounting practice--has already been stated.

"The same conclusion seems to be suggested if we consider the net economic effect if the Federal Government simultaneously makes a loan and finances the loan by borrowing. We will set aside for the moment the case where bonds are sold to the central bank, which is the financial equivalent of printing new money. If the Government borrows by selling bonds, its lending and borrowing of equal amounts very largely wash out in net economic effect, depending somewhat of course on the type of security sold and the type of loan made.

"Much of the Federal Government's borrowing and relending is a form of activity quite different in economic character from the levying of taxes and the purchase of goods and services for public programs. In many cases, the Government is simply acting as a conduit for funds borrowed from areas or capital markets with loanable funds to spare, passing them on to private, State and local government, or foreign parties who are not able to borrow directly themselves. In this sense, the Government is engaging in financial intermediation, like a bank, a savings and loan association, or other financial intermediary. By borrowing and relending, these institutions bring the interests of savers (lenders) and borrowers into balance. When Government lending activity is viewed this way, then it seems logical to treat loans differently from ordinary taxes and expenditures--indeed even exclude them completely--in calculating the budget surplus or deficit."

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"<u>The case for including loans in the budget</u>

"Advocates of including loans in the calculation of budget surplus or deficit point out that when the Government makes loans, it is not just acting as a bank or financial intermediary. If financial intermediation were all that were required, the private sector could well take care of balancing the interests of borrowers and lenders in a country with such highly developed capital markets as ours. Clearly something else is involved, specifically a recognition that without Federal intervention, important public objectives would not be accomplished through the ordinary working of the capital markets.

"From this point of view, Federal loan programs represent a redirection of national resources to comply with social priorities. They establish claims on resources and demands for current output of the economy that are very hard to distinguish from the demands and claims that arise from Federal expenditures for grants, transfer payments, or subsidies--transactions which are clearly included in anyone's measure of Government 'expenditures.' 'Soft' loans by the Agency for International Development to developing countries repayable in local currency, and nonrecourse loans to farmers made by the Commodity Credit Corporation (CCC) for which there is no legal obligation to repay if the farmer prefers to forfeit his collateral, are only extreme examples of so-called 'loans' which are particularly hard to distinguish from ordinary Government expenditures. In any event, the burden on the Treasury to finance loans through taxes or borrowing is not less than--or different from--the burden associated with financing any other Government expenditure.

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"To some, the pressures to minimize budget expenditures and the budget deficit provide an argument for excluding loans so that the choice between direct and indirect loans can be made solely on their respective merits. But if loans were excluded from the budget, these same pressures might well lead to an even worse distortion of program choices. The misnaming of grants, transfer payments, and subsidies--to get them out of the budget totals--might be greatly stepped up. * * *"

The sum and substance of the staff paper was to argue that loans made by the Government would not be made if adequate credit resources were available on the same terms in the private sector. Accordingly, the budget itself should provide for and reflect any redirection of economic resources through governmental action. The effect of any such programs should be reported on a net basis, not on a gross basis as a proper reflection of this redirection, and should be included in the calculations of budget surplus or deficit.

There is a very brief statement in the final Commission report which is also pertinent:

> "In line with the Commission's conviction that a unified budget system is essential, and that a comprehensive definition of the budget is very important, the inclusion of net lending as well as other expenditures in the budget has particular significance. With both in the budget, there should be no pressure by special interests or program partisans to redesign other expenditure programs to give them the appearance of direct loans in order to get them out of the budget."

You have heard the arguments that the Bank supports U.S. exports, that it helps meet the U.S. balance of payments problems, and that it makes a profit. Valid as these points may be, they do not make Export-Import Bank loans unique from a budgetary point of view. There are also other loan programs that have their own important purposes. For example, such important loan programs of the Farmers Home Administration, Veterans Administration, Rural Electrification Administration, Small Business Administration, and the Department of Housing and Urban Development for college housing are, from somebody's point of view, of a high priority and also extremely important. These loan programs, as you probably know, represent a total of outstanding loans more than $50 billion. Total net lending in the 1971 Budget is approximately $11 billion.

I do not know how anyone could differentiate between the Export-Import Bank case and other cases represented by the loans that are included in the budget today. Supporters of these programs could argue with equal force that they are unique. The issue before the Committee, therefore, is whether these programs, and many others, are to be reviewed in an orderly way so that the Congress can make informed decisions as to the priorities of need.

It has also been argued that Export-Import Bank loan disbursements take place over a period of years, but so do disbursements under other Federal loan programs. The Office of Management and Budget (OMB) should have, and presumably does have, estimates of the rate of disbursement available to it when it estimates net budget outlays. But even if OMB estimates were wrong, it could at any time during the year, after considering disbursements and receipts under outstanding loan agreements, make upward adjustments if the Bank could justify an overall increase in loan operations. This is legally permissible under the Government Corporation Control Act for all Government corporations; unless the Congress specifically limits the program in appropriation acts.

As we have pointed out in hearings on similar legislative proposals, whether the net lending of the Bank is included in the portion of the President's budget used in determining the deficit or surplus is within his discretion. Legislation for this purpose is unnecessary. However, the Executive Branch, as a policy matter has chosen to continue to include the net lending for the Export-Import Bank in the budget along with other loan programs, in line with the recommendations of his Budget Commission, which recommendations the President had theretofore adopted. Presumably, the Executive Branch wants the Congress to take the responsibility for departing from the unified budget.

In summary, Mr. Chairman, we have not argued that the Bank's lending operations are not extremely important. We believe they are. Nor do we differ on the need for the program to have a high priority. But the fundamental purpose of the budget is to bring together competing needs so that overall priorities may be established and resources allocated.

It is hard to escape the conclusion that the Bank's problem is not with the way the budget is developed, but with the fact that the Executive Branch does not assign as high a priority to the Bank's lending operations as the Bank desires. Similarly, the Congress, if it believes that additional resources should be made available to the Export-Import Bank, could initiate specific action to do so within the budgetary process and without destroying the unified budget concept.

We understand that the Subcommittee is also considering at this time H.R. 8181. We do not have any comments to offer with respect to this bill, other than the observation that it is unclear to us what would happen to the short term discount loan program of the Export-Import Bank if a similar discount program were established in the Federal Reserve Bank.

This concludes my statement.

ATTACHMENT

MEMBERS OF THE PRESIDENT'S

COMMISSION ON BUDGET CONCEPTS

The Honorable David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago. (Secretary of the Treasury, 1969 - 1970.)

The Honorable Robert B. Anderson, New York City (Secretary of the Treasury, 1957-60).

The Honorable Frank T. Bow, Ranking Minority Member, Committee on Appropriations, U.S. House of Representatives.

The Honorable Henry H. Fowler, Secretary of the Treasury.

The Honorable Carl Hayden, Chairman, Committee on Appropriations, U.S. Senate.

Mr. Winthrop C. Lenz, Executive Vice President, Merrill, Lynch, Pierce, Fenner & Smith, New York City.

The Honorable George H. Mahon, Chairman, Committee on Appropriations, U.S. House of Representatives.

Professor Paul W. McCracken, The University of Michigan.

The Honorable Charles L. Schultze, Director, Bureau of the Budget.

Professor Carl S. Shoup, Columbia University.

Mr. Leonard S. Silk, Editorial Page Editor and Chairman of the Editorial Board, Business Week.

The Honorable Elmer B. Staats, Comptroller General of the United States.

Mr. Robert M. Trueblood, Chairman of the Policy Group, Touche, Ross, Bailey & Smart, Chicago (President, American Institute of Certified Public Accountants, 1965-66).

Professor Robert C. Turner, Indiana University (Assistant Director, Bureau of the Budget, 1961-62).

Dr. Theodore O. Yntema, Oakland University, Rochester, Michigan.

The Honorable Milton R. Young, Ranking Minority Member, Committee on Appropriations, U.S. Senate.